Brazil stock market rises on Workers Party election victory

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Dilma Rousseff won the Brazilian presidential contest on October 31. Sunday's election was a run-off between Rousseff of the Workers Party (PT) and José Serra of the Brazilian Social Democratic Party (PSDB). With more than 90 percent of the vote counted, Rousseff won by some 12 million votes, 55.5 percent versus 45.5 percent for Serra. The distribution of the vote reflected Brazil's regional divisions; the PT candidate won in the more impoverished north, while Serra won in the industrial South.

The abstention rate reached a record for Brazil of 21.5 percent of the vote.

The Brazilian stock market reacted favorably to the election results. The Bovespa index gained 1.3 percent to 71,556, led by steel, communications and utility stocks. Brazil's currency also rose, trading at 1.696 *reais* to the dollar, compared to 1.703 Friday. It was a far cry from 2002, when markets fell and the *real* traded at close to 4 to the dollar on fears of what a PT government would mean for profit interests. Eight years in power have confirmed the so-called Workers Party as a stalwart defender of capitalism.

There was little in the way of significant differences between the programs of the two candidate; both pledged to follow the pro-capitalist market policies of PT leaders and outgoing President Luiz Inácio Lula da Silva, who in turn continued the essential program of his predecessor, Fernando Henrique Cardoso.

Barred from running for a third term, the incumbent president, popularly known as Lula, played the most prominent role in the election campaign and has made little secret that he intends to continue to participate in the incoming government from behind the scenes.

The PT will rule with an increased majority in both the House of Deputies and in the Senate. The party gained five new seats in the Senate during the first round of the elections last month, bringing its total to 14 in the 81-seat body. Parties supporting the PT government will control another 35 seats. In the lower house, the PT-led coalition, which includes several right-wing parties, won 311 of 513 seats.

During its two terms in office, the Lula government combined modest social assistance measures that refrained from challenging the national class divide, with neo-liberal free market policies. It ceded control of the central bank and fundamental economic decision-making to right-wing pro-business officials.

Nonetheless, Lula remains very popular with the electorate, particularly among the poorest layers who benefited from social assistance programs. Some polls give him an 80 percent approval rating.

While from very different class backgrounds, there is a parallel between Lula and Dilma. Both began their political careers challenging the Brazilian elites, Lula as a leader of Sao Paulo metal workers and Dilma as a student from an upper middle class family who joined a leftist guerrilla organization and was imprisoned by the Brazilian dictatorship that seized power in 1964 and ruled the country for more than two decades.

In the aftermath of the military regime, both made their peace with the political establishment, Lula as a "pragmatic" politician and Dilma as a bourgeois economist and technocrat specializing in the energy sector. After Lula's victory in 2003, PT members recommended her for a cabinet post.

Within the Lula administration she first served as energy minister and then as chief of staff. In the latter position she administered the Growth Acceleration Programs (PAC) that transferred income to impoverished regions in the country.

In her victory speech, Rousseff emphasized her status as the country's first woman to be elected president and promised to extend democracy and social equality to all Brazilians by guaranteeing "jobs, education, health care, housing and social peace," by growing the economy.

The PACs together with a welfare program known as the Family Fund (*Bolsa Familia*) have slightly raised the income level of the most impoverished sections of the population in the rural areas, winning the PT a loyal electoral base. However, urban poverty, together with the problems that go along with it—child labor, drug crime and urban gangs in the infamous slums known as *favelas*—have remained an intractable social problem.

The industrial working class has seen its living standards stagnate and continuing attacks on its basic rights, aided and abetted by a union bureaucracy that it is thoroughly integrated through the PT into the capitalist state. It is significant that the PT failed to carry Sao Paulo, the industrial state that was the birthplace of both the unions with which Lula was identified and the party itself.

Rather than challenge conditions of social inequality through structural measures and land reform placing control of the national wealth in the hands of Brazilian workers and peasants, Lula's so called "quiet revolution" is a kind of trickle down system that depends on rising profits. Despite some success in reducing extreme poverty—absolute living standards did rise—Brazil remains one of the most economically unequal countries in the hemisphere.

This nation of nearly 200 million inhabitants is the tenth worst in the world in terms of distribution of income and the third worst in Latin America after Haiti and Colombia. In 2009, some 4.5 million children between the ages or 5 and 17 were listed as child laborers, while 48 percent of the labor force of approximately 100 million were listed as employed in the "informal" sector, with little or no job security.

Together with Russia, India and China, Brazil is part of the BRIC group of emerging economies and is popular with foreign investors. It managed to recover from the 2008 financial crisis faster than other nations in part by drawing in massive capital inflows while maintaining an export surplus and increasing fiscal debt. As a result, a small GDP contraction in 2009 was followed by a 7 percent growth in 2010.

In a sense, Brazil has been a beneficiary of the global economic crisis, as banks and hedge funds respond to increasing instability and risk by seeking higher returns in the so-called emerging economies. Between 2007 and 2009, US $105 billion entered the Brazilian economy in search of higher bond rates, an amount only exceeded by Mexico in Latin America. This year, capital flows into Brazil are third in the world, trailing only China and India.

Recent inroads by hedge funds and investment banks indicate a degree of confidence in the continuity of the Lula policies. Recently, JP Morgan announced its intention to purchase Gávea, a Rio de Janeiro hedge fund. This is part of an expansion by JP Morgan. Its staff is expected to expand to 1,500 employees in 2012, up from the current 500. Goldman Sachs, which barely had 20 employees in Sao Paulo in 2007, now has 200. Other global entrants include UBS and Nomura Securities.

Combined with increasing government debt, and tight monetary policies, Brazil's double digit real interest rates have created a "carry trade," where investors borrow dollars at low interest rates, and invest in *reais* at higher interest. The net effect is to raise the value of the *real* and discourage Brazilian exports. Under conditions of a global currency war, this type of financial imperialism—the purchase of Brazilian financial and non-financial assets with depreciating currencies—in effect benefits international financial institutions and European, Japanese and US corporations at Brazil's expense and places impossible surplus value demands on the Brazilian working class to realize profit expectations.

For that reason, Rousseff's ability to continue Lula's balancing act—poverty reduction and stable growth—becomes less and less realistic as the global crisis unfolds.

Even before she formally takes office January 1, Rousseff is confronted with the insistent demands of the Brazilian and world bourgeoisies for fiscal austerity, labor, education and pension "reforms"—euphemisms for the further dismantling of labor, student and retirement rights—and lower corporate taxes.

Brazil will not remain immune from the world capitalist crisis, which will intensify the demands for drastic measures to eliminate the country's fiscal deficit and secure the interests of the national bourgeoisie and the transnational banks and corporations. The inevitable result will be a coming confrontation between the powerful Brazilian working class and the pro-capitalist "Workers Party" of Lula and Dilma.